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SUBJECT: ECONOMIC REPORT

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11. SUMMARY:

--Letseng Diamond Mine sold to Gem Diamond Mining Company;
--More Mining Licenses Granted;
--Law Society Appeals to Chief Justice;
--Standard Bank and Lesotho Bank Announce Merger;
--Lesotho Textiles Make a Comeback.

LETSENG DIAMOND MINE SOLD TO GEM MINING COMPANY

12. Uncertainty over the future of Letseng Diamond Mine in the mountain district of Mokhotlong was dispelled with last week's announcement that South Africa's mining holding company, JCI, has sold 100 per cent of Letseng Investment Holding to Gem Diamonds Mining of Africa for Maloti 879 million (USD 122 million). The Chief Executive of Gem Diamonds, which began operations in July 2005, is Clifford Elphick, who has worked for Anglo American, and was Managing Director of E. Oppenheimer and Son from 1990 until the end of 2004.

13. A March 24 Financial Mail report by Brendan Ryan suggested that black empowerment mining company Matotzi Resources faced insolvency, and that its only salvation was becoming a subsidiary of JCI, which owns 58 per cent of the company. According to the report, Matotzi had made an attributable loss of Maloti 31.7 million (USD 4 million) during the six months ending in September 2005. JCI had however undertaken to provide financial support to fund any resulting cash shortfalls.

14. Between them, Matotzi and JCI owned 76 per cent through a Lesotho registered company, Letseng Investment Holdings. The GOL owns 26 per cent of the mine. The original deal stipulated that the government could renegotiate its shareholding in the mine after five years of operation, which expires this year.

MORE MINING LICENSES GRANTED

15. The Lesotho government has granted diamond prospecting licenses to two companies based in Canada and South Africa. The Canadian company, Motapa Diamonds, has been granted exclusive rights to explore the Mothae kimberlite which is located 6.5 kilometers north-west of the Letseng diamond mine along a structural lineament common to both kimberlites. The site is

expected to yield diamonds of a similar value to those of Letseng. Note. In 2005 the mine made a find of four flawless diamonds weighing 112, 105, 76 and 71 carats each. End Note.

¶6. Prior investigations of Mothae indicate a grade of approximately 2.8 carats per hundred tons, although no reliable information on diamond value has been obtained.

¶7. Angel Diamonds (Pty) Ltd., a subsidiary of Thabex Exploration was on June 13 granted a two-year prospecting license over the Kolo kimberlite by Lesotho's Commissioner of Mines. Thabex Exploration is listed of the Johannesburg Stock Exchange, and has a diversified portfolio of exploration projects in alluvial and kimberlite deposits in South and Southern Africa.

¶8. The kimberlite is based in the Mafeteng district, forty kilometers south of the capital, Maseru. The two year period is extendable by a year. In the event of successful prospecting, Thabex is expected to make 20 per cent of its shareholding in Angel Diamonds available to the Lesotho government.

LAW SOCIETY APPEALS TO CHIEF JUSTICE OVER OFFICIAL CAR SCHEME

¶9. The Law Society of Lesotho has appealed to the Chief Justice and other members of the Bench to dissociate themselves from a scheme through which a South African vehicle leasing company, Imperial Fleet Services, has offered Mercedes Benz vehicles previously allocated to judges of the high court for a residual value of Maloti 4,000.00 (about USD 590.00).

¶10. Imperial Fleet Services, a South African company that leases GOL vehicles, made a first offer of Mercedes Benz and Camry vehicles previously leased to government to the officials who were assigned the vehicles at a residual value of about

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Maloti 4,000.00 (about USD 590.00) in the case of Mercedes Benz, and an average of Maloti 2,000.00 (about USD 295.00) in the case of Toyota Camrys in May this year.

¶11. Speaking in a Radio Lesotho phone-in program last month, the Government Secretary, Mr. Tlohang Sekhamane, said the scheme had been negotiated by government as an incentive to retain good quality officials, and Imperial to better its chances of getting another contract. The present contract has been renewed by a year until December, 2006. He said the scheme would also benefit holders of statutory positions including judges of the high court, members of the public service commission, the teaching service commission, the Independent Electoral Commission and the Attorney General and the Director of Public Prosecutions, among others.

¶12. According to the petition signed by the society president, Advocate Zwelake Mda, "It is the considered opinion of the Society that this arrangement smacks of a corrupt association between the Government and Imperial Fleet Services in that, inter alia:

a) The government is a party to a contract pursuant to which the vehicles are rented out to it by Imperial;

b) The fate and continuance of this contract (which itself is dogged by controversy) is depended on the favorable disposition of the government;

c) The marked value of the vehicles is way far above the paltry amount of Maloti 4,000 at which the vehicles are offered to those whose remit is to decide the fate of the said contract. The Society contends that where people hold offices of trust and discharge functions of public benefit, they dare not benefit privately. Consequently the view that the Judiciary would be

falling into a bottomless pit of corruption if it became party to this scheme. The society thus humbly and with due respect urges you and your Honorable brethren not to be attracted to this unfortunate scheme".

¶13. Meanwhile the leaders of three political parties have sent a similar note of protest to the heads of diplomatic missions accredited to Lesotho. Dated July 4, the letter refers to "the illicit and unprocedural acquisition of government property - in the form of Mercedes Benz and Toyota Camry vehicles - by the current ministers and principal secretaries".

¶14. The letter refers to a recent European Union commemoration event where the Lesotho government was specifically asked to step up the fight against corruption, purportedly by the EU delegate to Lesotho. According to the letter, the Foreign Minister had responded by saying that the GOL expects diplomats to help in that fight. The letter points to the acquisition of the vehicles as an incident in which government officials have abused their privileged positions for personal gain "through corrupt acquisition".

¶15. The letter is signed by Dr. Khauhelo Raditapole, leader of the Basotholand African Congress, BAC; Mr. Kelebone Maope, leader of the Lesotho People's Congress; and Mr. Ntsukunyane Mphanya, leader of the Mahatammoho a Poelano Alliance, who call on the diplomatic missions to bring the matter to the attention of their governments and organizations.

¶16. The Commissioner General of the Lesotho Revenue Authority, Dr. Charles Jenkins has confirmed that the government officials who acquired the vehicles did not have to pay Value Added Tax (VAT) on the purchase. He was responding to initial public speculation on whether the new owners would have paid tax on the amount at which the vehicles had been offered to them, or on the book value of the vehicles, and subsequent reports that the officials had evaded tax when acquiring the vehicles.

¶17. Dr. Jenkins cited a law abolishing double taxation on registered goods when the VAT was introduced in 2003. According to the law, VAT is only paid on new vehicles, and not on second hand vehicles. He said documentation relating to the said vehicles revealed that Imperial Fleet Services had paid tax to the South African government upon importation of the vehicles, which tax was subsequently claimed from the South African Revenue Service, SARS by the Lesotho Revenue Authority.

STANDARD BANK AND LESOTHO BANK ANNOUNCE MERGER

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¶18. Two of Lesotho's four major commercial banks, Standard Bank and Lesotho Bank have announced that they will start operating under one name, Standard Lesotho Bank starting over the weekend of July 15 to July 17. The South African Standard Bank bought eighty per cent shareholding in Lesotho Bank, previously owned by the government in 1999. The new bank was called Lesotho Bank 99, and has been operating as a separate entity since.

¶19. According to the Managing Director of Standard Bank, Collin Addis, the merger is intended to ensure a more efficient business model that meets the needs of its customers. He said following the merger, customers of the two banks would be able to make transactions and apply for replacement of automated teller machine cards and check books at existing branches of either bank.

¶20. He said the benefit to the GOL was that it would now own its 20 per cent shareholding in an expanded entity.

LESOTHO TEXTILES MAKE A COMEBACK

¶21. Lesotho's largest employer, the textile industry is reported by the UN Integrate Regional Information Networks to be making a comeback following the closure of seven factories with a loss of nearly 10,000 jobs at the end of 2005. According to Andy Salm, Regional Textile and Apparel Specialist for ComMark Trust, a non-governmental organization that monitors the industry in Southern Africa, all the factories that had been closed have reopened, and the number of jobs that had shrunk from 50,000 to 40,000 have now climbed back to around 47,000.

¶22. Salm attributes the continued commitment of textile industrialists in Lesotho to the engagement of the Lesotho government in addressing the problems encountered by the industry. He points out that the minister of Industry, Mpho Malie is receptive to working with the industry, and comes together with key players every two weeks to work out issues that may exist. Lesotho has further made concerted efforts to develop strong relationships with buyers and "clear red tape", which has contributed to turning around the industry.

¶23. According to Salm, another reason why Lesotho has caught the attention of buyers stems from the efforts of the government to build on an image of ethical choice. He cited the Apparel Lesotho Alliance to Fight Aids (ALAFA), a recently launched HIV/AIDS education and treatment network for industry workers as an example of a move to enhance the industry's growing reputation as a socially responsible source of clothing for famous brands.

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